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Viewing cable 09CARACAS106, VENEZUELA: OPEC CUTS TARGETED AT U.S.

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Reference ID	Created	Released	Classification	Origin
09CARACAS106	2009-01-28 13:18	2011-08-30 01:44	CONFIDENTIAL	Embassy Caracas

Appears in these articles:
http://www.semana.com/nacion/wikileaks-venezuela-caracas-sucursal-habana/158411-3.aspx

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R 281318Z JAN 09
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RUMIAAA/HQ USSOUTHCOM MIAMI FL
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C O N F I D E N T I A L CARACAS 000106

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD
HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
COMMERCE FOR 4431/MAC/WH/JLAO
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E.O. 12958: DECL: 01/26/2019
TAGS: EPET EINV VE

SUBJECT: VENEZUELA: OPEC CUTS TARGETED AT U.S.
REF: 08 CARACAS 01774

Classified By: Economic Counselor Darnall Steuart, for reasons 1.4 (b)
and (d).

¶1. (C) SUMMARY: Senior BP and Chevron officials confirmed that PDVSA is aggressively enforcing OPEC-mandated quota cuts in the hope that the cuts will turn around the slump in oil prices. So far, the cuts have been levied on joint ventures based on the price per barrel received for the crude sales. The most recent round of cuts reduced production by 189,000 b/d. BP confirmed that the Cerro Negro field is shut in and does not know when it will be reopened (Note: Cerro Negro supplies the Chalmette refinery in the U.S.). Both companies continue to take the long view in Venezuela and hope to win a concession in the current Carabobo Round, whose timeline, they concur, will be delayed. Chevron acknowledged that it had been approached at year end by PDVSA about the possibility of handling Cuban crude and/or sulfur through PetroPilar, the former Hamaca Strategic Association. END SUMMARY

PDVSA ENFORCING OPEC CUTS

¶2. (U) According to a press release dated January 7, 2009 from the Venezuelan Ministry of Energy and Petroleum, the following OPEC cuts have been enacted:
CUT (b/d) COMPANY PRODUCT PARTNER
DESTINATION

90,000 Petromonagas Monagas 18 BP
U.S.
18,000 Petrolera Sinovensa Merey 16 CNPC
China
13,000 Petrocedeno Zuata Sweet Total/Statoil
U.S.
30,000 Petroboscan Boscan Chevron
U.S.
10,000 Petroregional del Lago BCF 22 Shell
U.S.
6,000 Petroritupano Merey 16 Petrobras
U.S.
8,000 Petrolera Indo Venezolano Merey 16 ONGC
U.S.
5,000 Petroperija Lagotreco BP
Europe
9,000 Petroquirinquire Merey 16 Repsol
U.S.

According to a January 2009 OPEC report, Venezuela's estimated production in December 2008 was 2,237,000 b/d. The quota cut of 189,000 represents an eight per cent reduction in Venezuelan production.

¶3. (C) During introductory meetings for newly arrived Petroleum AttachQ (PetOff), EconCon and PetOff met with XXXXXXXXXXXX on January 22 and Managing XXXXXXXXXXXX on January 23. XXXXXXXXXXXX confirmed that PDVSA had shut-in the field associated with the PetroMonagas project (formerly the Cerro Negro Strategic Association) on January 1 and had not indicated how long the shut in would last (NOTE: According to XXXXXXXXXXXX, Cerro Negro was producing 120,000 b/d.) PDVSA presented the closure as part of OPECQ,s quota cuts for Venezuela and had also declared force majeure regarding its supply contracts with the Sweeney and Chalmette refineries in the United States. (NOTE: The Chalmette refinery was originally a joint venture between ExxonMobil and PDVSA which was designed to take the upgraded Cerro Negro crude for further refining. PDVSA cut off deliveries to Chalmette in early 2008 following legal actions taken by ExxonMobil to freeze PDVSA assets in Europe. Other industry sources tell us that following an unsuccessful attempt to market the Cerro Negro crude as Q&Monagas 18,Q8

PDVSA resumed shipping to ExxonMobil in September 2008.)

¶4. (C) XXXXXXXXXXXX confided that BP was provided advance notice of the shut-in but not the exact date the field would be closed. The field was shut-in in a safe and efficient manner and XXXXXXXXXXXX believes that they will be able to bring it back on-line operationally without significant difficulty. He did, however, express some concern that, depending on the length of the shut-in, there could be questions about the operation of down hole equipment and the overall effect on the reservoir. BP estimates that they have to date recovered 2-2.5% of the Cerro Negro reserves.

¶5. (C) XXXXXXXXXXXX confirmed that PetroBoscan had also taken a 30,000 b/d cut. This was the second round of cuts at PetroBoscan. The September 2008 cuts at PetroBoscan reduced production from 110,000 b/d to 60,000 b/d (Reftel) while this cut would supposedly reduce production to 30,000 b/d. XXXXXXXXXXXX added that PetroBoscan has two main flow stations and that Chevron had believed that they would have to shut one down due to the cuts, a major concern. However, PDVSA had since requested that PetroBoscan increase production to 40,000 b/d and the company has been able to keep both flow stations operational (Note: This will help the field increase production more rapidly in the future). XXXXXXXXXXXX noted that production levels at PetroPilar (formerly the Hamaca Strategic Association) continue at 135,000 b/d following repairs to its upgrader sulfur units. While PetroPilar could return to 170,000 b/d he indicated that PDVSA was holding back the increase and was bringing in its own heavy Morichal crude to be upgraded.

6.(C) XXXXXXXXXXXX agreed that PDVSA is taking steps publicly to demonstrate its adherence to the ordered OPEC quota cuts. XXXXXXXXXXXX commented that 80 percent of the cuts had been levied on PDVSA,s joint ventures (which account for 25 percent of total Venezuelan production). XXXXXXXXXXXX observed that PDVSAQ,s request that PetroBoscan increase production by 10,000 b/d indicates that they are closely following production and are attempting to maintain current production levels when other fields go off-line. It is unclear whether the current cuts will continue on a quarterly basis or for the entire year. While both XXXXXXXXXXXX agreed that the cuts have been made based on the price per barrel received for the crude sales, i.e., targeted on heavier crudes, XXXXXXXXXXXX hypothesized that PDVSA is restricting output to the U.S. market as it perceives this as having the most leverage on global oil prices. PetroBoscan has a long term contract to provide U.S. company NuStar Energy with 40,000 b/d.

¶7. (C) When asked about conflicting press reports about the numbers of rigs operated at PetroBoscan, XXXXXXXXXXXX shared that PDVSA is sensitive on the question of how many rigs are operating from an employment perspective. Chevron currently has two drilling rigs operating at PetroBoscan but three of six work-over service rigs are shut down. XXXXXXXXXXXX expects that one of the two drilling rigs will shut down in the next couple of weeks if current conditions continue.

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A TALE OF TWO JOINT VENTURES AND ONE BID ROUND
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¶8. (C) XXXXXXXXXXXX stated that BP received $100 million in dividends from PDVSA in 2008 (the last dividend received came in October) and that BP is satisfied with the revenue flow. Additionally, PDVSA has made good faith efforts in the nationalization of BPQ,s downstream assets (130 service stations). On the other hand XXXXXXXXXXXX noted that the service companies are not faring well and that PDVSA is using payments to the service companies as a Q&clubQ8 to ensure cooperation as well as to force re-negotiation of service contracts negotiated during the past two-three years. In contrast, XXXXXXXXXXXX noted that dividend payments for PetroBoscan are lagging by Q&a few hundred million dollars.Q8 Chevron last received a dividend payment in the first half of 2008. In comparison, however, they receive regular dividend payments from PetroPilar.

¶9. (C) In discussing their companies, continued interest in the upcoming Carabobo heavy oil bid round, XXXXXXXXXXXX and XXXXXXXXXXXX agreed that the bid deadline is likely to slip, but the process has been managed well to date. XXXXXXXXXXXX indicated that the PDVSA directors managing the concession round are proving to be resourceful and flexible and that XXXXXXXXXXXX is seeing greater personnel stability at PDVSA which has made it easier to build business relationships and improved communication. The PDVSA directors have not, however, responded to some seven hundred questions from industry on the Carabobo Round. Both XXXXXXXXXXXX agreed that the answers to those questions included a number of issues which would be critical to bid formulation. XXXXXXXXXXXX indicated that given the current investment climate, industry is looking for flexibility in the royalty law, securing good cash flows upfront (to fund the upgrader), and greater flexibility on dilutant sourcing, transportation, and marketing. Reflecting back on the Cerro Negro shut-in, XXXXXXXXXXXX and other oil sector experts opined that the OPEC-production cuts (about 80 percent of which have been levied on joint ventures with foreign partners) risk sending a negative message to the same investors PDVSA is attempting to court in the Carabobo Round.

TRYING TO MOVE CUBAN OIL

¶10. (C) When asked about recent rumors that PDVSA might seek to upgrade heavy Cuban crude in one of the four former Strategic Association upgraders, XXXXXXXXXXXX noted that PDVSA approached Chevron in later November to early December 2008 to discuss upgrading Cuban crude at PetroPilar. After refusing the request, the Venezuelan's asked whether they would stockpile Cuban sulfur with PetroBoscan sulfur. While Chevron has been adamant at refusing any and all Cuban products, XXXXXXXXXXXX thought it was a situation that needed monitoring (especially in the 100% PDVSA-owned blocks). At a separate meeting of oil industry experts on January 27, EmbOffs learned that PDVSA has appointed a refinery manager responsible for coordination of all four of the upgraders. While this enables PDVSA more efficiently to manage upgrader operations, it might also provide an opportunity for PDVSA to introduce Cuban products into the process.

COMMENT

¶11. (C) Faced with low global oil prices, Venezuela is anxious to appear to be making its assigned OPEC production cuts and may have targeted oil destined for the U.S as the most expeditious way to bolster world prices. However, Venezuela needs the Carabobo Round to be a success and is unlikely to take further action to aggravate relations with interested IOCs.
CAULFIELD